

Message Text

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ACTION NEA-10

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FM AMEMBASSY COLOMBO

TO SECSTATE WASHDC 5423

C O N F I D E N T I A L SECTION 1 OF 2 COLOMBO 2876

E.O. 11652:N/A

TAGS: PFOR,PINT, ECON, CE

SUBJECT: QUARTERLY OVERVIEW: APRIL-JUNE 1976

1. SUMMARY. POLITICAL OPPONENTS OF PRIME MINISTER BANDARANAIKE'S GOVERNMENT--INCLUDING TAMILS AND TROTSKYITES--TRIED THEIR HAND AT MINOR CIVIL DISOBEDIENCE BUT WITH LITTLE SUCCESS AS NON-ALIGNED

SUMMIT CONFERENCE GREW CLOSER. OPPOSITION UNITED NATIONAL PARTY CONTINUES TO SEE ITS BEST HOPE IN COMING ELECTIONS AND WON ONE BY-ELECTION THIS QUARTER BUT WAS WEAKENED BY EXPULSION OF M.P. RUKMAN SENANAYAKE. EATH OF CABINET MINISTER THIS QUARTER WILL FORCE ANOTHER BY-ELECTION AUGUST 27. LONG STANDING COMPETITION BETWEEN PM'S SON AND SON-IN-LAW FOR POWER WITHIN RULING SRI LANKA FREEDOM PARTY MAY BE MODERATING AS SON ANURA HAS EMERGED PREDOMINANT.

2.DROUGHT CONTINUES TO ADVERSELY AFFECT AGRICULTURAL OUTPUT IN SRI LANKA. MAHAWELI RIVER DIVERSION SCHEME HAS SO FAR PROVED ONLY marginally helpful. TO ALLEVIATE ALWAYS-CRITICAL UNEMPLOYMENT SITUATION, AND TO WIN ELECTORAL SUPPORT FOR RULING PARTY,
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FINANCE MINISTER BANDARANAIKE HAS PROPOSED GRANDOISE AND

INFLATIONARY SCHEME FOR CREATING 300,000 NEW JOBS.MORE PERMANENT AID FOR ECONOMIC DEVELOPMENT COULD CONCEIVABLY COME FROM OFFSHORE OIL EXPLORATION BEGUN IN EARNEST THIS QUARTER BY MARATHON PETROLEUM BUT THIS IS A LONG SHOT.AS NON-ALIGNED CONFERENCE APPROACHED, INTERNATIONAL INTEREST IN SRI LANKA WAS MANIFESTED BY VISITS OF PRE-CONFERENCE LOBBYING DELEGATIONS AND BY ESTABLISHMENTS OF NEW RESIDENT MISSIONS IN COLOMBO AND EXPANSION OF EXISTING ONES.END SUMMARY.

3.AS THE GSL BECAME MORE AND MORE PREOCCUPIED WITH PREPARATIONS FOR THE AUGUST SUMMIT CONFERENCE OF THE NON-ALIGNED MOVEMENT, POLITICAL DISSIDENTS TOO--FROM MODERATE PARLIAMENTARY OPPOSITION TO MORE EXTREME TAMIL SUCCESSIONISTS--CONCENTRATED ON THE POSSIBILITIES THE CONFERENCE PRESENTS FOR SELF-ADVERTISEMENT AND OR EMBARRASSMENT OF THE GOVERNMENT. HOWEVER, THE PRIME MINISTER WAS QUICK TO QUELL ANYTHING SUGGESTING DISRUPTION OF PUBLIC ORDER. THE MOST SERIOUS CHALLENGE TO THE GOVERNMENT--AND IN FACT TO THE STATE--HAS COME RECENTLY FROM THE SEPARATIST-MINDED TAMILS. A MAY CONVENTION IN JAFFNA FEATURING A RECONCILIATION BETWEEN TWO LONG-TIME FEUDING LEADERS OF THE TAMILS AND A RADICALIZATION OF THE ORGANIZATION'S TERMINOLOGY (THE GROUP HAS RENAMED ITSELF THE TAMIL UNITED LIBERATION FRONT) LED TO AN ORGANIZED PROTEST FEATURING PAMPHLETEERING AND SECESSIONIST PROPAGANDA MAY 21. FOUR AMONG THE LEADERS (THREE OF THEM MPS) WERE IMMEDIATELY ARRESTED FOR VIOLATION OF NEWLY-PROMULGATED EMERGENCY REGULATIONS AND ARE NOW BEING TRIED. (COLOMBO 1976)

4. THE TROTSKYITE OPPOSITION, LANKASAMA SAMAJA PARTY (LSSP) TOO HAS MADE A STAB AT HARASSING THE GOVERNMENT. VERY MINOR CIVIL DISOBEDIENCE TOOK THE FORM OF PASTING UP BANNED POLITICAL POSTERS; THE TROTSKYITES MAJOR WEAPON, THOUGH, IS THEIR URBAN LABOR FOLLOWING, WHICH HAS NOT BEEN CALLED INTO ACTION DURING THE PAST QUARTER EXCEPT FOR ISOLATED, MINOR WORK STOPPAGES.HUMILIATED BY A DISASTROUS BY-ELECTION SHOWING, THE PARTY IS ALSO IN FINANCIAL STRAITS AND HAS SUSPENDED PUBLICATION OF ITS DAILY SINHALA NEWSPAPER.

5. THE CONSERVATIVE UNITED NATIONAL PARTY CONTINUED
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TO ESCALATE ITS OPPOSITION RHETORIC IN ANTICIPATION LESS OF THE NON-ALIGNED CONFERENCE THAN OF THE ELECTIONS, WHICH LOCAL SPECULATION NOW SUGGESTS MAY OCCUR BY EARLY NEXT YEAR.THE UNP HAS HAD ITS OWN INTERNAL PROBLEMS THIS QUARTER WITH THE EXPULSION OF RUKMAN SENANAYAKE . MP FOR DEDIGAMA AND NEPHEW OF FORMER PRIME MINISTER DUDLEY SENANAYAKE.RUKMAN IS NOW ORGANIZING A SPLINTER GROUP CALLED THE "DUDLEY

FRONT" WITH OTHER UNP DISSIDENTS. THE UNP WON THE ONE BY-ELECTION THIS QUARTER IN SUBURBAN JA-ELA. THE DEATH IN JUNE OF MINISTER OF HEALTH AND FISHERIES GEORGE RAJAPAKSE HAS NECESSITATED THE SCHEDULING OF ANOTHER BY-ELECTION, THIS ONE IN THE SOUTH, AT WHICH THE SLFP WILL ATTEMPT TO BREAK A BY-ELECTION LOSING STREAK DATING BACK TO 1972. HOWEVER, RAJAPAKSE'S SEAT HAS LONG BEEN A RATHER SAFE ONE FOR THE SLFP. RAJAPAKSE'S DEATH HAS ELEVATED HIS TWO DEPUTY MINISTERS TO SEPARATE POSTS IN THE CABINET; SEVERAL OTHER DEPUTY MINISTERSHIP VACANCIES WERE ALSO FILLED RECENTLY (COLOMBO 2405).

6. MAY DAY, THE ANNUAL TEST OF STRENGTH FOR RIVAL PARTIES, PASSED PEACEFULLY, WITH THE NOW-OPPOSITION LSSP ORGANIZING ITS OWN RESPECTABLY-SIZED RALLY. THE UNITED FRONT, NOW ONLY THE SLFP AND MOSCOW-WING COMMUNISTS, MANAGED TO HOLD ITS LARGEST EVER MAY DAY DEMONSTRATION TO TAKE AWAY THE BAD TASTE OF THE PREVIOUS WEEK'S JA-ELA BY-ELECTION DEFEAT.

7. MOSCOW COMMUNISTS HAVE NOT SUCCEEDED IN THEIR EFFORTS TO REUNITE LSSP WITH UNITED FRONT GOVERNMENT. N.M. PERERA IN PARTICULAR IS SAID TO BE UNALTERABLY OPPOSED TO RECONCILIATION AS IS PRIME MINISTER. LSSP HAS BEEN EQUALLY UNSUCCESSFUL IN BRAKING OFF LEFTIST MEMBERS OF SLFP AND LP TO FORM NEW SOCIALIST UNITED FRONT.

8. THE RIVALRY BETWEEN THE PRIME MINISTER'S SON-IN-LAW KUMAR AND HER SON ANURA BANDARANAIKE HAS BEGUN TO LOOK LIKE AN UNEVEN CONTEST, AND THERE ARE SIGNS KUMAR MAY BE PREPARING TO SUE FOR PEACE. WITH HIS MOTHER-IN-LAW CLEARLY FAVORING HER SON, KUMAR'S TRADE UNION AND CONFIDENTIAL

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JOURNALISTIC ENTERPRISES ARE FALTERING.

9. ON THE INTERNAL SECURITY SIDE, THE ARMED FORCES HAVE BEEN INTENSIVELY PATROLLING SUSPECTED INSURGENT AREAS AND ARRESTING SOME OF THE LAST STRANGLERS FROM THE 1971 INSURRECTION. THEY HOPE TO DESTROY THE GUERILLA INFRASTRUCTURE AND TO PREVENT ANY POSSIBILITY OF TROUBLE DURING THE NAC, WHEN RURAL POLICE STATIONS WILL BE MINIMALLY STAFFED DUE TO NAC SECURITY REQUIREMENTS.

10. THE ECONOMY. THE DROUGHT CONTINUES TO BE THE MAJOR FACTOR OF ECONOMIC LIFE IN THE VILLAGES. ONE LONG-TERM PARTIAL SOLUTION TO THE PERIODIC FAILURE OF THE MONSOONS IS EXPECTED TO BE THE DIVERSION OF THE MAHAVELI RIVER TO THE DRY ZONE. AFTER THE FIRST FIVE

MONTHS OF OPERATION OF THE FIRST STAGE, THE PROJECT HAS PROVED TO BE BENEFICIAL, BUT FAR FROM A PANACEA. EVEN MINIMAL DIVERSION FROM THE ALREADY NOW MAHAVELI HAS BROUGHT CRIES OF DISMAY FROM TRADITIONAL DOWNSTREAM CULTIVATORS. BUT, BODING WELL FOR THE FUTURE OF THE LONG-TERM PROJECT, THE GSL THIS QUARTER MADE AN IMPORTANT CONCESSION TO WORLD BANK CONDITIONS FOR CONTINUED FINANCING BY GAZETTING A NEW LAND BETTERMENT CHARGES BILL, WHICH PROVIDES INTER ALIA FOR PAYMENT OF WATER CHARGES BY CULTIVATORS.
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R 110745Z AUG 76

FM AMEMBASSY COLOMBO

TO SECSTATE WASHDC 5424

C O N F I D E N T I A L SECTION 2 OF 2 COLOMBO 2876

E.O. 11652: GDS

TAGS: PFOR,PINT, ECON,CE

SUBJECT: QUARTERLY OVERVIEW: APRIL-JUNE 1976

11. THE GSL'S CONTINUOUS SCRAMBLE FOR FOREIGN EXCHANGE EXCALATED THIS QUARTER AS THE GOVERNMENT MOVED TO RAISE A SUBSTANTIAL AMOUNT OF MONEY TO PUMP INTO THE ECONOMY. ATTEMPTS TO QUIETLY FLOAT A LARGE LOAN WITH CREDIT LYONNAIS AND POSSIBLE ARAB INTERMEDIARIES MAY HAVE BEEN STYMIED BY PUBLICITY AND OPPOSITION ATTACKS. SUBSEQUENTLY FINANCE MINISTER FELIX DIAS BANDARANAIKE

SUMMONED MANAGERS OF SIX FOREIGN BANKS WITH BRANCHES
HERE TO INFORM THEM THAT THEIR CONTINUED OPERATION IN
SRI LANKA WAS DEPENDENT ON THEIR WILLINGNESS TO BRING
IN FUNDING TO THE TUNE OF ONE HUNDRED MILLION DOLLARS
WITHIN ONE MONTH (COLOMBO 2299). SO ARE THERE
APPEARS TO HAVE BEEN NO RESPONSE.THE MONEY,BANDARANAIKE
SAID,WAS TO BE USED FOR CREATION OF UP TO
300,000 NEW JOBS THROUGH URBAN RENEWAL AND CONVERSION
OF SOME PLANTATION LANDS TO MORE LABOR-INTENSIVE
CULTIVATION. THIS IS A HISTORICALLY TYPICAL PRE-
ELECTION GIMMICK IN SRI LANKA, BUT HAS RAISED THE
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SPECTRE OF SUBSTANTIAL INFLATION IF IT IS CARRIED OUT.
ONE OF THE MOST BITTER OPPONENTS OF THE EMPLOYMENT
SCHEME, INTERESTINGLY IS THE SLFP'S COALITIONPARTNER,
THE COMMUNIST PARTY/MOSCOW, WHICH NO DOUBT SEES THIS
AS AN OPPURTUNITY TO SNIP AT BANDARANAIKE
WHOM IT CONSIDERS TO BE A REACTIONARY. IT MAY ALSO
BE THAT BANDARANAIKE IS CUTTING THE CP/M OUT OF HIS
EMPLOYMENT SCHEMES.

12. SPUDDING IN OF SRI LANKA'S FIRST OFFSHORE OIL
WELL BY MARATHON PETROLEUM JUNE 22 WAS PUBLICIZED AS
ONE OF THE COUNTRY'S HOPES, ABLEIT CHANCY, FOR
FUTURE ECONOMIC GROWTH. LATEST WORD,THOUGH IS THAT FIRST WELL IS DRY.
(COLOMBO 2778) MARATHON'S ROLE REPRESENTED
THE FIRST MAJOR NEW U.S. PRIVATE SECTOR INVOLVEMENT
IN SRI LANKA ECONOMY SINCE 1968 (COLOMBO 2257).

13. THE RUPEE-POUND STERLING LINK WAS SEVERED AND
THE CONSEQUENT STEADY DEVALUATION OF THE RUPEE IN
RECENT YEARS WAS ENDED EFFECTIVE MAY 24AFTER IT
BECAME CLEAR THAT THE POUND WOULD NOT REBOUND SUBSTANTIALLY
FROM ITS NEW LOW VALUE.THE RUPEE HAS
NOW BEEN TIED TO A BASKET OF CURRENCIES.

14. UK-SRI LANKA RELATIONS. THE END OF THE QUARTER
BROUGHT THE ARRIVAL OF AMBASSADOR JOHN H. REED, TO
WHOM W.T. JAYASINGHE, SECRETARY TO THE MINISTRY OF
DEFENSE AND FOREIGN AFFAIRS COMMENTED THAT "AMERICAN-
SRI LANKA RELATIONS HAVE NEVER BEEN BETTER."IN
FACT, THERE IS A REFRESHING LACK OF TROUBLESOME
BILATERAL ISSUES.THE GOVERNMENT HAS ESCHewed
ANTI-WESTERN RHETORIC AND HAS LINED ITSELF UP WITH
THIRD WORLD MODERATES AS THE NON-ALIGNED CONFERENCE
DRAWS CLOSER.

15. AN OUTRAGEOUSLY ILLOGICAL CHARGE BY THE EMBASSY'S
BETE NOIRE, EX-MINISTER OF FINANCE N.M. PERERA

(WHO, WHILE IN THE GOVERNMENT HAD ALLEGED EMBASSY MISUSE OF PL 480 FUNDS), THAT THE PRIME MINISTER HAD CONSIDERED A PLAN TO USE U.S. SOLDIERS TO PUT DOWN THE 1971 RADICAL YOUTH INSURGENCY, WAS PART OF
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PERERA'S CAMPAIGN AGAINST THE PRIME MINISTER RATHER THAN THE U.S. THE ALLEGATION WAS VEHEMENTLY DENIED BY THE PRIME MINISTER AND HAS BEEN ALL BUT FORTOTTEN (COLOMBO 1470).

16. THE AID PROGRAM'S FUTURE HAS BEEN SUBJECT TO STUDY THIS QUARTER WITH THE PUBLICATION OF A PROGRAM ASSESSMENT FOR SRI LANKA WHICH RECOMMENDED THE ADOPTION OF THE GSL'S CAMPAIGN FOR FOOD SELF-SUFFICIENCY AS THE FRAMEWORK FOR SUSTAINED AID EFFORT OVER THE NEXT FIVE YEARS. (COLOMBO 1238). LATE IN JUNE, AID/WASHINGTON AUTHORIZED \$ 9.6 MILLION DOLLARS FOR TWO NEW DEVELOPMENT LOANS IN RICE RESEARCH AND PADDY STORAGE AND PROCESSING.

17. THE FORMAL EXCHANGE OF NOTES APPROVING THE EXTENSION OF THE VOICE OF AMERICA AGREEMENT, WHICH TECHNICALLY EXPIRED MAY 14 HAS NOT YET BEEN COMPLETED, BUT THE PRIME MINISTER HAS REPORTEDLY APPROVED, AND THE DELAY IN FULL CABINET APPROVAL IS PROBABLY DUE TO PREOCCUPATION WITH THE NON-ALIGNED CONFERENCE. (

18. SRI LANKA'S FOREIGN RELATIONS. COLOMBO HAS RECEIVED A STEADY STREAM OF VISITORS AND NEW ENVOYS THIS PAST QUARTER, ALL WITH THEIR EYES SET UPON SRI LANKA'S TEN DAYS IN THE INTERNATIONAL SPOTLIGHT THIS AUGUST. THE PLO'S FIRST RESIDENT REPRESENTATIVE APPEARED ON THE SCENE RECENTLY WITH A BLARE OF PUBLICITY. MORE QUIETLY, THE VIETNAMESE EMBASSY HAS ABOUT DOUBLED IN SIZE AND THE CUBAN EMBASSY HAS PERHAPS TRIPLED. THE USSR MISSION HAS INCREASED ITS STAFF BY TEN TO FIFTEEN. ADDITIONS HAVE BEEN MADE TO THE BULGARIAN AND EAST GERMAN MISSIONS HERE AS WELL. BANGLADESH OPENED ITS NEW HIGH COMMISSION HERE IN APRIL.

19. ROMANIAN PRIME MINISTER MANESCU PAID A STATE VISIT TO SRI LANKA IN MAY WITH THE TRANSPARENT AIM OF GAINING THE HOST'S SUPPORT FOR ATTENDANCE AT THE NON-ALIGNED CONFERENCE AND MEMBERSHIP IN THE MOVEMENT. THE COUNTRY'S RESIDENCY MISSION IN COLOMBO WAS RAISED FROM A TRADE OFFICE TO AN EMBASSY, WITH RESIDENT CHARGE.
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20. NORTH KOREA IS ANOTHER NATION WHICH HAD LOBBIED VIGOROUSLY
HERE, ALBEIT WITHOUT GREAT APPARENT SUCCESS.
THEY SOUGHT GSL PERMISSION TO REOPEN IN COLOMBO THEIR
RESIDENT EMBASSY, WHICH HAS BEEN CLOSED SINCE
1971 INSURGENCY BECAUSE OF SUSPECTED NORTH KOREAN SUPPORT
FOR THE RADICAL YOUTHS. BY PRIME MINISTERIAL DECISION
THE ANSWER HAS BEEN A FLAT "NO".

21. SEVERAL REPRESENTATIVES OF THE CHILEAN ANTI-
FASCIST RESISTENCE MOVEMENT VISITED SRI LANKA IN MAY
(COLOMBO 2063) AND WERE FETED BY THE LEFT POLITICAL
PARTIES. THE CHILEAN RESISTANCE MOVEMENT TOO HAS BEEN
SPURNED BY THE NON-ALIGNED COORDINATING COMMITTEE,
WHICH AGREED NOT TO ISSUE THE ORGANIZATION AN INVITATION
TO THE NAC.

22. MADAME BINH, IN HER SWAN SONG AS FOREIGN MINISTER
OF PRG, VISITED COLOMBO IN LATE MAY AND HEWED TO
SOVIET LINE IN "NON-ALIGNED" DISCUSSIONS AND PUBLIC
LECTURES, (COLOMBO 2034).

23. SRI LANKA DELEGATIONS ATTENDED BOTH THE
ALGIERS MEETING OF NON-ALIGNED FOREIGN MINISTER AND
UNCTAD IV IN NAIROBI. THEIR LACK OF AGGRESSIVENESS
IN PUSHING THEIR MODERATE VIEWS IN THOSE FORA MAY
CHANGE, WHEN THEY ARE IN THE ROLE OF HOST AT THE
NAM SUMMIT CONFERENCE.
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